

## Message Text

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51

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SAJ-01 AGR-20 CEA-02 CIAE-00

COME-00 DODE-00 EB-12 FRB-03 H-03 INR-11 INT-08 L-03

LAB-06 NSAE-00 NSC-07 PA-04 RSC-01 AID-05 CIEP-03

SS-20 STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SP-03

FEAE-00 OMB-01 SWF-02 NIC-01 DRC-01 /183 W

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FM AMEMBASSY PRAGUE

TO SECSTATE WASHDC 7070

INFO USMISSION BERLIN

AMEMBASSY BONN

EC BRUSSELS 186

AMEMBASSY COPENHAGEN

US MISSION GENEVA 185

AMEMBASSY HELSINKI

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

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E.O. 11652: N/A

TAGS: ETRD, GATT, CZ, FI, XH

SUBJECT: FINLAND-CZECHOSLOVAKIA AGREEMENT FOR RECIPROCAL REMOVAL  
OF OBSTACLES TO TRADE

REFS: A. HELSINKI 1975; B. EC BRUSSELS 7660

BEGIN SUMMARY: CZECHOSLOVAK PRESS TYPICALLY REPORTED  
SIGNING OF NEW AGREEMENT FOR RECIPROCAL REMOVAL OF  
OBSTACLES TO TRADE AND OF RENEWED LONG-TERM TRADE  
AGREEMENT WITH FINLAND IN SCANT DETAIL AS TO THEIR  
TERMS AND WITH EMPHASIS ON POLITICAL ASPECTS.  
NO DISTINCTION WAS DRAWN BETWEEN PRESENT TARIFF  
SYSTEMS IN EITHER FINLAND OR CZECHOSLOVAKIA, OR TO  
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RELATIVE MERITS OF AN AGREEMENT WHICH IS, "FIRST OF

ITS KIND CONCLUDED ... WITH A CAPITALIST STATE." IN OUR VIEW, VALUE OF AGREEMENTS TO FINLAND WILL DEPEND LARGELY ON FINNISH RESOLVE NOT TO ALLOW ECONOMIC AND COMMERCIAL ADVANTAGES, WHICH NOW APPEAR HEAVILY IN FAVOR OF CZECHS, TO NEGATE APPARENT POLITICAL GOAL FOR FINLAND OF BALANCING HER RELATIONS WITH EC COUNTRIES WITH THOSE OF CEMA. END SUMMARY.

1. WE WERE PLEASED TO RECEIVE EXCELLENT SUMMATION AND ANALYSIS CONTAINED REFTEL OF CZECHOSLOVAK-FINNISH AGREEMENT FOR RECIPROCAL REMOVAL OF OBSTACLES TO TRADE, SIGNED IN HELSINKI SEPTEMBER 19, 1974, ON OCCASION OF GENERAL SECRETARY HUSAK'S VISIT TO FINLAND.

2. APART FROM GENERAL SUMMARY OF HIGHLIGHTS OF HUSAK'S VISIT APPEARING IN RUDE PRAVO SEPTEMBER 20, WE HAVE HAD LITTLE IN WAY OF DETAILED INFORMATION TO REPORT ON CONTENTS EITHER OF AGREEMENT IN QUESTION OR OF COMPANION LONG-TERM TRADE AGREEMENT WITH FINNS WHICH CZECHS SIGNED AT SAME TIME, AND WHICH REPLACES PRESENT FIVE-YEAR TRADE AGREEMENT EXPIRING AT END OF THIS YEAR. IT MAY BE INSTRUCTIVE, HOWEVER, TO EXTRACT MAJOR POINTS FROM CZECHOSLOVAK PRESS ACCOUNT WHICH PROVIDE COUNTERPOINT TO FINNISH VIEW OF AGREEMENT DISCUSSED REFTEL (A).

3. PLAYING HEAVILY ON POLITICAL ASPECTS OF NEW AGREEMENT BY HERALDING IT AS "FIRST OF ITS KIND CONCLUDED BY CZECHOSLOVAKIA WITH AN ADVANCED CAPITALIST COUNTRY," ARTICLE STATES THAT AGREEMENT "BINDS BOTH SIDES TO REMOVE TARIFFS." ARTICLE MAKES NO DISTINCTION BETWEEN CURRENT TARIFF LEVELS IN EACH COUNTRY AS THESE IMPACT ON IMPORTS FROM OTHER AND MERELY STATES THAT, BEGINNING IN 1975, "FINNISH TARIFFS ON CZECHOSLOVAK EXPORTS WILL BE REDUCED BY 60 PERCENT -- AS WILL CZECHOSLOVAK TARIFFS ON FINNIS EXPORTS," WITH FURTHER REDUCTIONS OF 20 PERCENT ON BOTH SIDES IN EACH OF SUCCEEDING TWO YEARS. ARTICLE IS MUTE ON FURTHER DETAILS OF FIRST AGREEMENT, WITH NO MENTION EITHER OF GATT COMPLICATIONS FOR FINLAND PRESENTED BY STRUCTURE AND OPERATION OF CZECHOSLOVAK TARIFF SYSTEM (WHICH IS LIMITED OFFICIAL USE

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HARDLY SURPRISING IN VIEW OF FACT THAT CZECHOSLOVAKIA, A CONTRACTING PARTY TO THE GATT, HAS BEEN EFFECTIVELY PREVENTED BY HER POST-WAR RELATIONS WITH USSR FROM FULLY PARTICIPATING IN RIGHTS AND PRIVILEGES FLOWING FROM GATT) OR OF FACT THAT FOR MOST PRODUCTS CZECHOSLOVAK TARIFFS POSE NO REAL BARRIERS TO TRADE. (THIS LATTER POINT, BY THE WAY, WAS CONFIRMED BY A CZECHOSLOVAK CUSTOMS OFFICIAL IN CONVERSATION WITH

EMBOFF LAST YEAR. OFFICIAL CHARACTERIZED CZECH TARIFF RATE AS ONE OF LOWEST IN WORLD, AVERAGING ONLY 5 OR 6 PERCENT BY VALUE ACROSS BOARD. HE ALSO STATED THAT CZECH FTO'S NORMALLY SWALLOW IMPORT DUTIES IN THEIR COMMERCIAL DEALINGS WITH WESTERN FIRMS, EXCEPT FOR DUTIES FOR ABOUT 60 ITEMS ENCOMPASSED UNDER FOLLOWING PRINCIPAL HEADINGS: CERTAIN CATEGORIES OF FRUIT AND VEGETABLES AND THEIR JUICES, ASSEMBLED AUTOMOBILES, TRUCKS, HEAVY AIRCRAFT ENGINES AND SOUND RECORDING AND REPRODUCTION EQUIPMENT, EXCEPT PHONOGRAPHS.)

4. AS REGARDS THE CURRENT LEVEL OF TRADE WITH FINLAND, OFFICIAL CZECHOSLOVAK DATA FOR 1973 SHOW THAT EXPORTS EXCEEDED IMPORTS BY OVER 20 PERCENT: \$18.4 MILLION IN EXPORTS AS AGAINST \$15.2 MILLION IN IMPORTS. (FIGURES DERIVED BY CONVERTING CZECH CROWN FIGURES AT AVERAGE OFFICIAL PARITY FOR 1973 OF 5.7 TO ONE U.S. DOLLAR.) IN 1972, HOWEVER, THE TRADE BALANCE WAS JUST ABOUT REVERSED, WITH IMPORTS FROM FINLAND EXCEEDING CZECH EXPORTS BY ROUGHLY 9 PERCENT; ABSOLUTE VALUES BEING OF SAME MAGNITUDE AS IN 1973. OVERALL TRADE IN 1973 WOULD THUS HAVE TOTALLED NEARLY \$34 MILLION WHICH COMPARES CLOSELY WITH FIGURE OF \$35.5 MILLION CITED PARA 7 REFTEL A.

5. GIVEN PRODUCT CATEGORIES IN WHICH FINLAND HOPES TO INCREASE EXPORTS TO CZECHOSLOVAKIA IN COMING YEARS, WE AGREE THAT OUTLOOK FOR SUCCESS FROM FINLAND'S STANDPOINT MAY NOT BE TOO BRIGHT. COMMENTING ON THE LONG-TERM TRADE AGREEMENT, RUDE PRAVO NOTES THAT IT INCLUDES, "NEW AND PROGRESSIVE ELEMENTS" WHICH DID NOT FORMERLY EXIST, AND TURNOVER IN EXCHANGE OF GOODS WITH FINLAND UP TO 1980 IS TO INCREASE BY LIMITED OFFICIAL USE

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150 PERCENT OVER PRESENT LEVELS. INEVITABLE PRICE INCREASES ASIDE, THIS WILL BE A NEAT TRICK FOR FINNS TO ACCOMPLISH WHILE ATTEMPTING RETAIN MEASURE OF BALANCE IN TRADING WITH CZECHS WITHOUT RECOURSE TO SAFEGUARD PROVISION OF NEW RECIPROCAL TARIFF REMOVAL AGREEMENT. WHILE WE UNABLE COMMENT NOW AS TO WHAT CZECH PRESS ACCOUNT MEANS BY "NEW AND PROGRESSIVE ELEMENTS" IN LONG-TERM AGREEMENT, WE DO NOTE THAT ARTICLE STRESSES "POLITICAL WILLINGNESS AND PRACTICAL INTEREST" ON BOTH SIDES IN INCREASING TRADE. ALSO, NOT MENTIONED IN REFTEL A, IS FACT NOTED BY RUDE PRAVO THAT FINLAND WILL PARTICIPATE IN DEVELOPMENT OF CZECHOSLOVAK TIMBER-PROCESSING INDUSTRY IN COMING YEARS.

6. REFTEL B ARRIVED JUST AS THIS CABLE WAS BEING

SENT. OUR INITIAL COMMENT ON VIEWS OF EC COMMISSION  
DEPUTY DIRECTOR FOR EXTERNAL AFFAIRS IS THAT HE IS  
PROBABLY RIGHT, ESPECIALLY IN CASE OF CZECH/FINNISH  
AGREEMENT, THAT FREE TRADE AREA CONCEPT WITH EAST  
EUROPEAN COUNTRIES IS LARGELY WITHOUT MEANING. WE  
WOULD SUPPORT HIS ARGUMENT THAT A GO-VERY-SLOW APPROACH  
TO THIS AGREEMENT, WHICH HAS ALL THE APPEARANCES OF A  
CEMA (READ SOVIET) EFFORT TO INSTALL A TROJAN HORSE  
WITHIN EC, IS CALLED FOR BY ALL WESTERN PARTIES TO  
GATT. WE WILL SEEK VIEWS OF OTHER GATT MEMBER  
COUNTRIES' REPRESENTATIVES IN PRAGUE AND REPORT THOSE  
OF INTEREST.  
PERRY

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## Message Attributes

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